

October 01, 2020

Iris Business Services Limited: [ICRA]BB-(Stable)/[ICRA]A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund based – Cash Credit	6.00	[ICRA]BB-(Stable); Assigned
Long-term, fund based – Term Loan	6.31	[ICRA]BB-(Stable); Assigned
Short-term, non fund based – Bank Guarantee	3.00	[ICRA]A4; Assigned
Short-term, non fund based – Forward Contract	2.00	[ICRA]A4; Assigned
Long-term, unallocated amount	0.69	[ICRA]BB-(Stable); Assigned
Total	18.00	

*: Instrument details are provided in Annexure-1

Rationale

The ratings assigned factor in the proven expertise and credibility of the promoters of Iris Business Services Limited (Iris or the company) in the information technology (IT) sector. The well-established business relations of Iris with its reputed customers from diversified domains provide revenue visibility to the company. Iris operates in the field of financial structured data solutions and research sector which is growing significantly on back of higher demand for uniformized compliance and risk management tools in the financial services sector. ICRA also takes note of the turnaround of profitability metrics exhibited by Iris in FY2020 primarily on account of stabilization of business activities.

The ratings, however, remain constrained by the modest scale of operations coupled with negative free cash flows exhibited by Iris during the period under consideration. The company remains exposed to moderately high client concentration risk with its top five clients contributing to ~38% revenue in FY2020. Its operations also remain working capital intensive in nature due to high receivables cycle, leading to high utilisation of working capital limits. Furthermore, the company's margins remain vulnerable to adverse fluctuations in the foreign exchange on account of considerable revenue contribution from the exports market.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's expectations that Iris will continue to benefit from the stable demand for its products/services and established track record of providing relevant solutions to various reputed customers across geographies. The company has incurred majority of its product development expenditure in recent past as a result of which the profitability metrics of Iris is expected to remain comfortable going forward.

Key rating drivers and their description

Credit strengths

Proven expertise and credibility of promoters in the IT services sector – The promoters of Iris have over 15 years of experience in the IT services sector, particularly in the financial structured data solutions and research domain. The vast experience of promoters helps the company in establishing its brand presence and in acquiring new customers.

Well-established relations with reputed customers across various geographies - The company has over the years established deep-rooted business relations with its clientele. Presence of reputed customers from diversified domains provides revenue visibility to the company while safeguarding company's business against any sector-specific risks. Iris also exhibits considerable geographical diversification in revenue generation with its operational presence in several overseas markets such as the UK, the US, Italy, South Africa, etc. with considerable revenue contribution from exports (~59% of total revenue in FY2020).

Significant growth of turnover along with turnaround of operations in FY2020 - Iris exhibited a turnaround in its profitability metrics in FY2020 primarily on account of better absorption of its operating costs. The revenue demonstrated a substantial growth of 28% in FY2020 over FY2019 whereas the operating costs increased marginally. The company implemented various cost optimization measures and incurred majority of its product development expenditure in the past. The company's operating margin improved from -1.8% (FY2019) to 15.1% (FY2020). Sustainance of operating profit margins remain critical from credit perspective.

Credit challenges

Modest scale of operations with negative free cash flows – With an operating income of Rs. 51.0 crore in FY2020, Iris exhibits a modest scale of operations. The company also reported negative free cash flows over the period under consideration on account of higher operating costs and modest revenue base. However, incremental revenue generation coupled with containment of operating costs is expected to improve the free cash flows position of the company going forward.

Working capital intensive nature of operations – Iris exhibits working capital intensive nature of operations, primarily on account of prolonged receivables, leading to high utilisation of working capital limits. The average working capital utilization stood at ~80% of sanctioned limits for the 16-month period ended July 2020. Iris has been registered with MSME in July 2020. The MSME Development Act 2006 is therefore expected to reduce the receivables position of the company going forward, thereby providing some comfort to its working capital profile.

Exposed to moderately high client concentration risk – With its top five clients contributing to ~38% revenue in FY2020, Iris remains exposed to moderately high client concentration risk. However, well-established relations with reputed customers, result into repeat orders and therefore, provides some cushion against the said risk. Furthermore, the company has been expanding its scale of operations through customer addition, which is expected to moderate its client concentration risk going forward.

Vulnerability of margins to fluctuations in foreign exchange – The company's margins remain vulnerable to any adverse fluctuations in the foreign exchange, given the considerable contribution of exports to the revenues of the company. However, the company uses foreign exchange forward contracts to hedge part of its exposure to the movement in foreign exchange. Such hedging practices provide some cushion to the company's profitability metrics against the said risk.

Liquidity position: Stretched

The company's liquidity position remains stretched on account of losses incurred in the recent past. Although the company reported turnaround of operations in FY2020, the cash flow from operations have remained negative on account of modest profitability and high debtors outstanding. The company had term loan outstanding of Rs. 5.17 crore on its books as on March 31, 2020 (term loan outstanding was Rs. 5.61 crore in September 2020, including the interest accrued during the moratorium period), of which, ~Rs. 1.85 crore is scheduled to be repaid in FY2021, followed by debt repayment of ~Rs. 2.47 crore and ~Rs. 1.29 crore in FY2022 and FY2023 respectively. The company had cash and cash equivalents of Rs. 1.69 crore and a buffer of Rs. 0.61 crore from the undrawn working capital limits as on March 31, 2020, reflecting limited liquidity cushion for the company.

Rating sensitivities

Positive triggers – The rating could be upgraded if the entity shows significant ramp up of operations while maintaining profitability, and shows improvement in liquidity position on a sustained basis

Negative triggers – The rating could be downgraded if the entity shows significant de-growth in revenue base or deterioration in margin leading to stress on liquidity position of the company

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the consolidated financial statements of Iris Business Services Limited

About the company

Established in 2004, Iris is engaged in providing products, services and solutions in the financial structured data solutions and research domain. The company earlier operated as a knowledge process outsourcing (KPO) entity and shifted its line of business from KPO services to financial structured data solutions and research in year 2014-15. It presently operates through three business segments – Collect, Create and Consume, mainly providing products, services and solutions in the eXtensible Business Reporting Language (XBRL) domain. Headquartered in Navi Mumbai (Maharashtra, India), Iris has its operational presence in India as well as overseas markets such as the UK, the US, Italy, South Africa, etc. The company has set up regional offices in Singapore, the US and Italy to cater to the regional demands for its products and services.

Key financial indicators (Consolidated)

	FY2019 Audited	FY2020 Audited
Operating Income (Rs. crore)	39.89	51.00
PAT (Rs. crore)	-6.08	0.48
OPBDIT/ OI (%)	-1.78%	15.13%
PAT/OI (%)	-15.23%	0.95%
Total Outside Liability/ Tangible Net Worth (times)	1.62	1.57
Total Debt/ OPBDIT (times)	-18.06	1.43
Interest Coverage (times)	-0.44	4.98

Status of non-cooperation with previous CRA: India Ratings migrates Iris Business Services to Non-Cooperating category (press release dated: September 4, 2020) (rating: IND B / IND A4)

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore) as on March 2020	Date & Rating 1-Oct-2020	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
1 Cash Credit	Long-Term	6.00	NA	[ICRA]BB-(Stable)	-	-	-
2 Term Loan	Long-term	6.31	5.17	[ICRA]BB-(Stable)	-	-	-
3 Bank Guarantee	Short-Term	3.00	NA	[ICRA]A4	-	-	-
4 Forward Contract	Short-Term	2.00	NA	[ICRA]A4	-	-	-
5 Unallocated Amount	Long-Term	0.69	NA	[ICRA]BB-(Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	6.00	[ICRA]BB-(Stable)
NA	Term Loan	Mar-2015	13.50%	Mar-2022	6.31	[ICRA]BB-(Stable)
NA	Bank Guarantee	NA	NA	NA	3.00	[ICRA]A4
NA	Forward Contracts	NA	NA	NA	2.00	[ICRA]A4
NA	Unallocated Amount	NA	NA	NA	0.69	[ICRA]BB-(Stable)

Source: Iris Business Services Limited

Annexure-2: List of entities considered for consolidated analysis–

Company Name	Ownership	Consolidation Approach
Iris Business Services LLC	100.00%	Full Consolidation
Iris Business Services (Asia) Pte. Ltd.	98.36%	Full Consolidation
Atanou S.r.l.	100.00%	Full Consolidation
Iris Logix Solutions Private Limited	76.00%	Full Consolidation

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Rupa Pandey

+91 22 6114 3456

rupa.pandey@icraindia.com

Yashowardhan Swami

+91 20 6606 9923

yashowardhan.swami@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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